Yardi® Matrix

Riding Phoenix's Heat Wave

Multifamily Report Summer 2019

Rent Growth Still Strong

Development Surge Continues

Transaction Activity Remains Elevated

Market Analysis
Summer 2019

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Rent Growth Leads Nation

The Phoenix multifamily market kicked off 2019 with strong rent growth, completions and transaction activity. At 6.8% as of May, nearly three times the U.S. average, year-over-year rent growth led all major metros in the country. The development boom continues, with 4,053 units coming online in the first five months of 2019. Even so, occupancy in stabilized properties actually inched up 20 basis points over 12 months, to 95.5% as of April.

Employment growth was robust in the metro, which gained 58,500 jobs in the 12 months ending in March, a 3.1% increase, nearly double the national rate. Improvement was widespread, with all sectors recording net gains. Construction led the way with the addition of 14,000 positions, buoyed by the sustained expansion of real estate development. Education and health services followed closely, adding 13,900 jobs during the same period, bolstered by both Arizona State University and the booming bioscience field. Professional and business services is also growing (11,600 jobs), as the metro is competing with Texas in corporate relocations and expansions.

Some $2.5 billion in multifamily assets traded in the metro this year through May. Boosted by rapid population growth and a burgeoning economy, housing demand is poised for a strong 2019, while new supply struggles to keep up. We expect the average Phoenix rent to rise 5.3% this year.

Recent Phoenix Transactions

Bella Mirage

City: Avondale, Ariz.
Buyer: The Milestone Group
Purchase Price: $112 MM
Price per Unit: $156,643

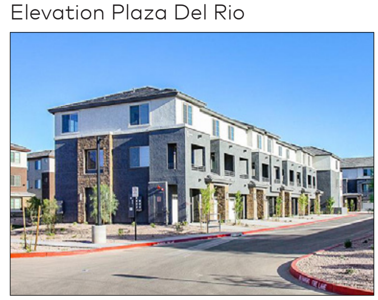
Roosevelt Row

City: Phoenix
Buyer: Weidner Investment Services
Purchase Price: $84 MM
Price per Unit: $266,456

The Core Scottsdale

City: Scottsdale, Ariz.
Buyer: Starlight Investments
Purchase Price: $80 MM
Price per Unit: $285,106

Elevation Plaza Del Rio



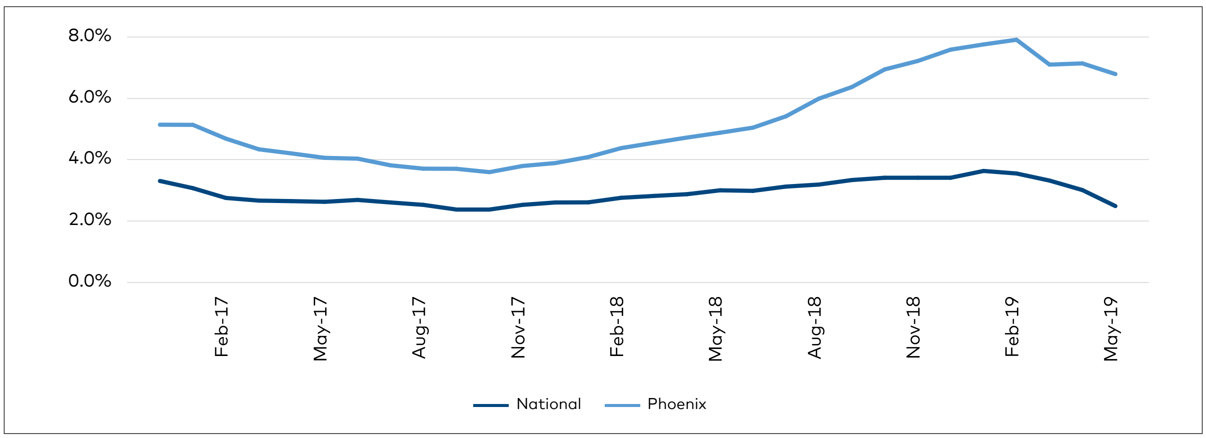
City: Peoria, Ariz.
Buyer: LivCor
Purchase Price: $70 MM
Price per Unit: $209,910

On the cover: Photo by FangXiaNuo/iStockphoto.com

Rent Trends

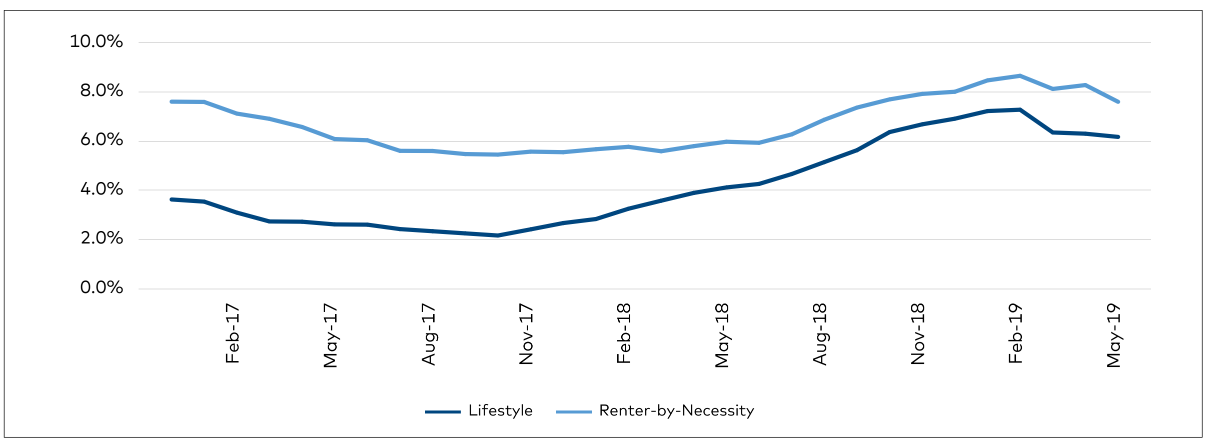
- Rents in Phoenix rose 6.8% year-over-year through May, leading the nation once again, after sharing first place with Las Vegas in April. The average rate in the metro stood at $1,148, still trailing the $1,442 U.S. figure. Robust rental demand continues to fuel rent growth, and despite the steady pipeline of the past three years, Phoenix's occupancy rate in stabilized properties rose another 20 basis points over 12 months, reaching 95.5% in April.
- Assets in the working-class Renter-by-Necessity segment led growth, with the average rate up 7.6% year-over-year, to $934. Meanwhile, Lifestyle rents appreciated by 6.2%, reaching $1,341.
- North Paradise Valley recorded the sharpest rent hike (11.4% to $1,396), followed by Northwest Phoenix (9.5% to $795). Maryvale, a submarket west of central Phoenix, saw the slowest gains, with rents up 3.5% to $859, but even so, Maryvale's rate of growth was still 100 basis points above the overall national average. As of May, the most expensive Phoenix submarkets were Sky Harbor (4.1% to $1,582), South Scottsdale (8.4% to $1,483) and North Scottsdale (8.9% to $1,457).
- Recording rapid demographic and economic growth, the metro is poised to continue sustaining a strong rental market. We expect the average overall Phoenix rent to rise 5.3% this year.

Phoenix vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

Phoenix Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

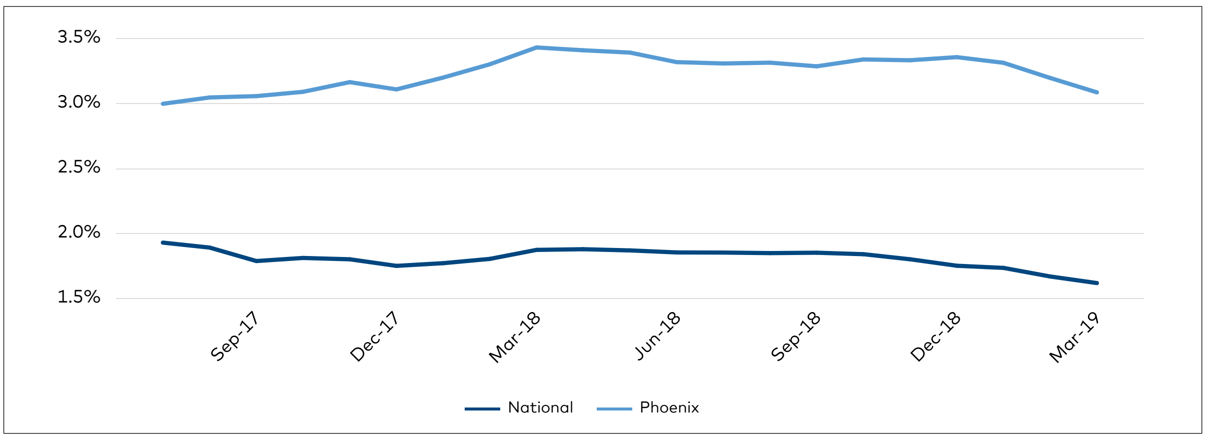
Economic Snapshot

- Phoenix added 58,500 jobs in the 12 months ending in March, a 3.1% growth rate, nearly double the 1.6% U.S. figure. The business-friendly environment, paired with an affordable cost of living, has kept Phoenix as one of the fastest-growing cities in the country. Unemployment clocked in at 3.8% in March.

- Both residential and commercial development is surging, turning construction into Phoenix's top-performing sector, with the addition of 14,000 jobs, despite the nationwide shortage in the labor market. The recession turned out to be a wake-up call for Phoenix: With service-sector jobs hit the hardest, the downturn accelerated growth in tech industries over the past decade. This, in turn, has revitalized the metro's economy, especially the bioscience and health-care sectors.

- Phoenix ranked among the nation's top metros for startups and entrepreneurship over the past four years, according to the Kaufmann Foundation. Moreover, Arizona is directly competing with Texas in landing corporate relocations and expansions. As a result, professional and business services grew by 11,600 jobs and shows no signs of stopping. Deloitte is expanding by 102,000 square feet in a project that is anticipated to generate 2,500 jobs over multiple phases. Nationwide Insurance will set a $139 million regional headquarters in Scottsdale, creating more than 500 new jobs.

Phoenix vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

Phoenix Employment Growth by Sector (Year-Over-Year)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
15	Mining, Logging and Construction	139	6.4%	14,000	11.2%
65	Education and Health Services	337	15.6%	13,900	4.3%
60	Professional and Business Services	362	16.8%	11,600	3.3%
40	Trade, Transportation and Utilities	407	18.8%	10,100	2.5%
30	Manufacturing	131	6.1%	4,400	3.5%
80	Other Services	70	3.2%	1,500	2.2%
55	Financial Activities	193	8.9%	1,200	0.6%
70	Leisure and Hospitality	236	10.9%	1,200	0.5%
90	Government	247	11.4%	300	0.1%
50	Information	39	1.8%	300	0.8%

Sources: YardiMatrix, Bureau of Labor Statistics

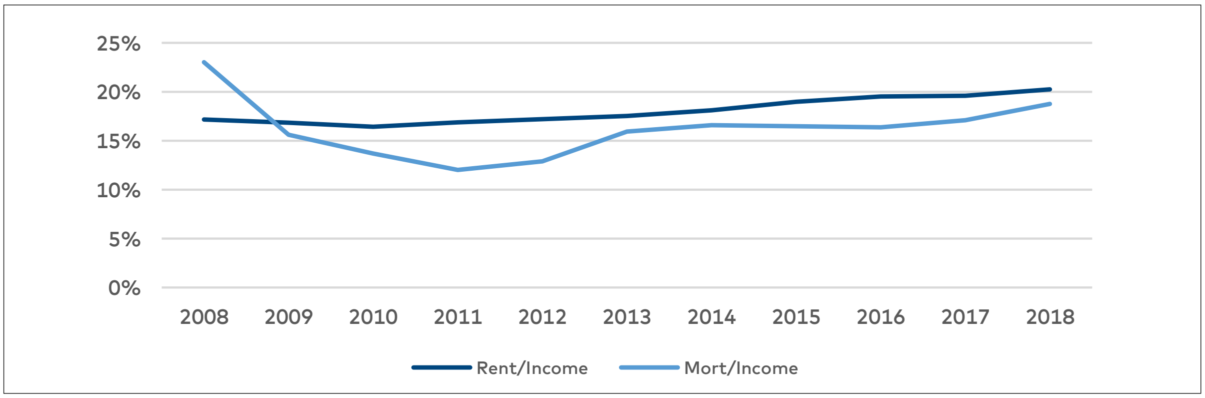
Demographics

Affordability

- The median home price in Phoenix rose to $247,486 last year, up 97% from the 2011 trough. Owning accounted for 19% of the area median income, while renting equated to 20%. With the massive influx of residents relocating from California, tenant demand is expected to rise further. Paired with rents climbing at a robust pace, the metro's affordability issues will likely progress.

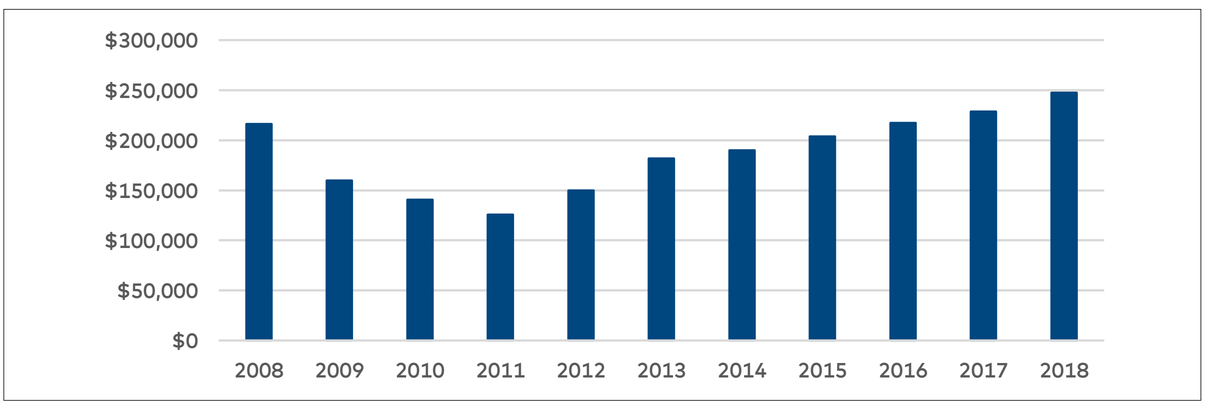
- The metro's poor public transit system has led residents across income brackets to spend nearly 50% of their earnings on housing and transportation, according to a report from Harvard's Joint Center on Housing Studies. Nearly 550 units in fully affordable communities are currently underway in Phoenix.

Phoenix Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Phoenix Median Home Price



Source: Moody's Analytics

Population

- Phoenix has added 533,122 residents since 2010, a population growth of 12.7%. That's more than double the 5.3% U.S. rate.

- The metro added 88,772 people in 2017 for a 1.9% expansion.

Phoenix vs. National Population

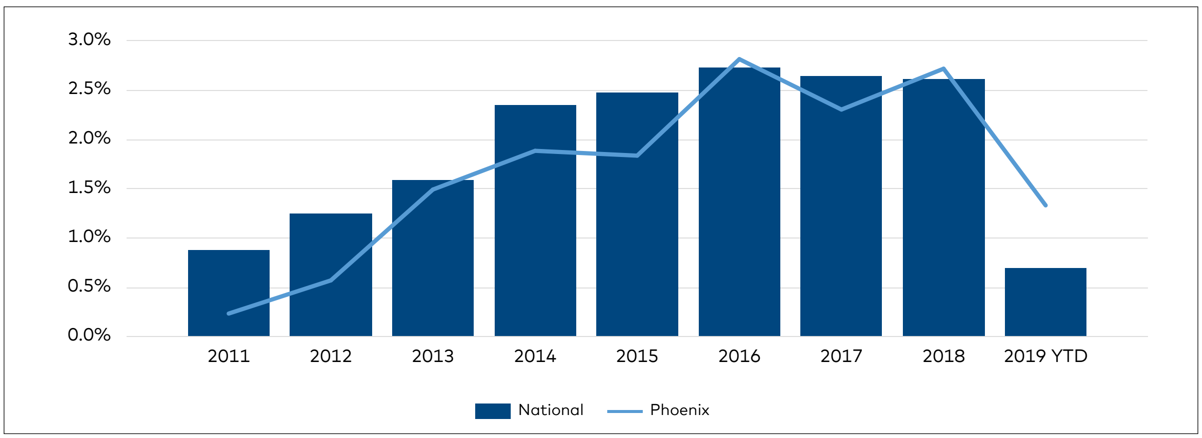
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Phoenix Metro	4,390,565	4,470,712	4,558,145	4,648,498	4,737,270

Sources: U.S. Census, Moody's Analytics

Supply

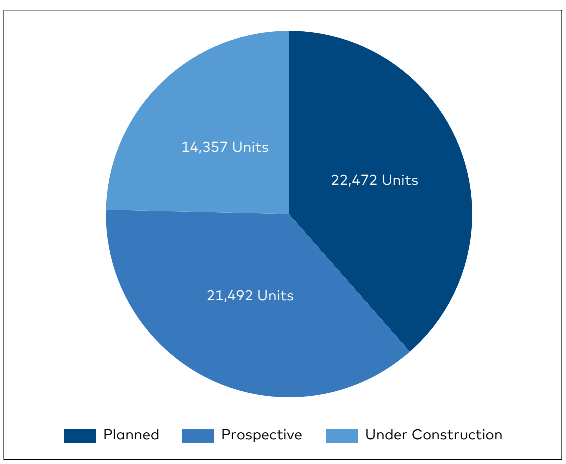
- With 4,053 units added to the rental inventory in 2019 through May, Phoenix's expansion continues at a sustained pace. Most of these apartments are in upscale assets. Last year marked a cycle peak, with 8,162 apartments coming online. The metro is poised for another banner year for completions, as we expect an extra 3,500 units to be delivered by December.
- Some 14,300 apartments were under construction as of May, while another 44,000 units were in the planning and permitting stages. The metro's strong demand for multifamily housing, fueled by rapid demographic and economic growth, is set to keep up with the incoming supply.
- Construction activity is high across the map, but the top four submarkets account for almost half of the pipeline. North Tempe led the way with 2,942 units under construction, followed by Sky Harbor (1,621 units), Gilbert (1,525 units) and North Scottsdale (933 units). The largest development in the works is the 504-unit Sky at Chandler Airpark, a Management Support property, slated for completion in 2020. The largest community slated for completion this year is the 382-unit San Valencia, a Mark-Taylor Residential asset also located in Chandler, less than 1 mile from Sky at Chandler Airpark.

Phoenix vs. National Completions as a Percentage of Total Stock (as of May 2019)



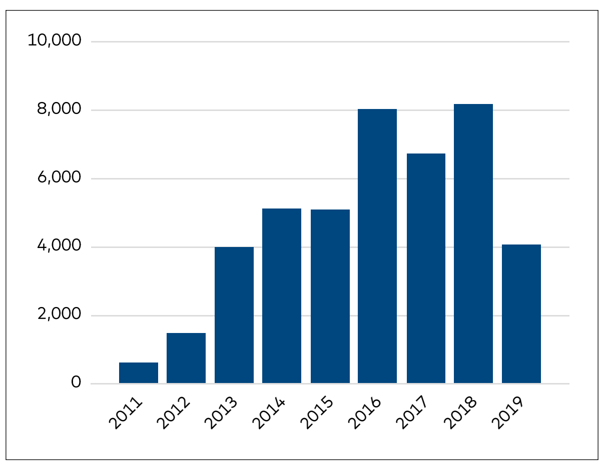
Source: YardiMatrix

Development Pipeline (as of May 2019)



Source: YardiMatrix

Phoenix Completions (as of May 2019)

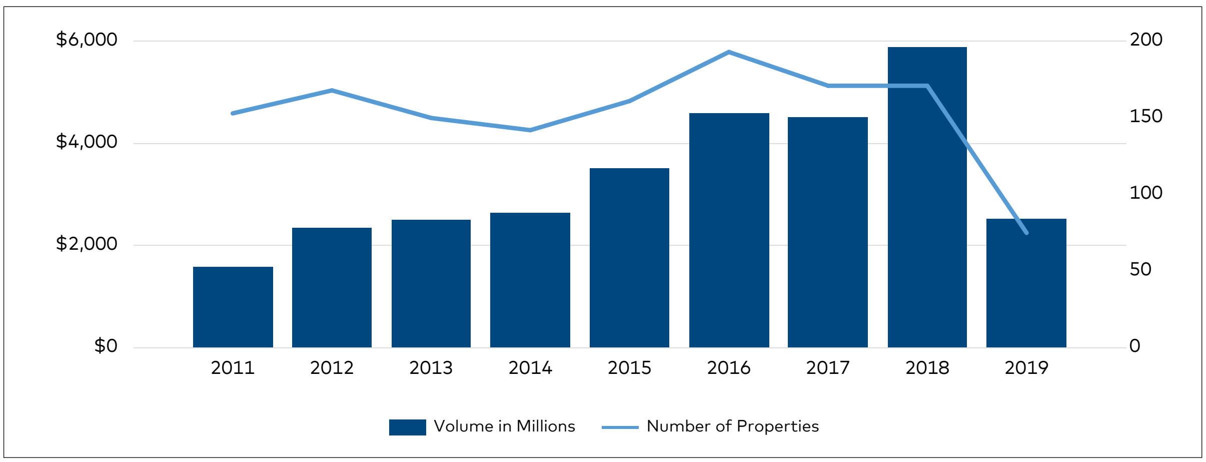


Source: YardiMatrix

Transactions

- Investment activity got off to a strong start this year, with more than $2.5 billion in multifamily assets trading through May. The average per-unit price rose 16.6% year-over-year to $155,052, partly because about one-third of these properties were in the Lifestyle segment. The price per unit has been on a sharp ascending path since 2017, slightly moderated throughout 2018, but closed in on the $156,206 U.S. figure as of May.
- Sustained, strong property performance, as well as a positive outlook for the coming years, have increased investor demand, with acquisition yields averaging 5.0%. The largest deal of 2019 through May was the sale of Bella Mirage, a 715-unit asset in Avondale. The Milestone Group bought the 10-year-old, garden-style asset in the metro's western suburbs from Priderock Capital Partners for $112 million, or $156,643 per unit.

Phoenix Sales Volume and Number of Properties Sold (as of May 2019)



Source: YardiMatrix

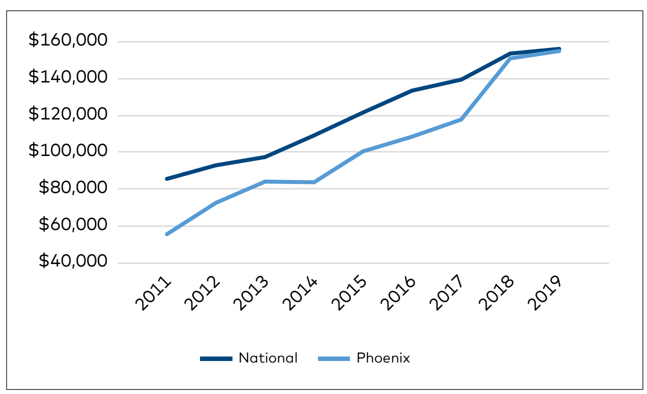
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
North Tempe	689
South Mesa	522
Mountain Park	522
South Tempe	390
Uptown	378
Western Suburbs	312
North Scottsdale	284
North Mesa	261

Source: YardiMatrix

[1] From June 2018 to May 2019

Phoenix vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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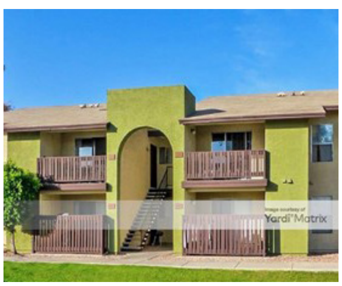
AZ Community Trades for $74M

MG Properties Group used a $49.3 million Fannie Mae loan to finance the acquisition of the 379-unit garden-style property located in Tempe.

Tides Equities Buys AZ Property for $40M

Berkadia arranged the sale of the 488-unit garden-style community located in Phoenix, approximately 10 miles from downtown. The brokerage firm represented the seller in the transaction.



Western Wealth Grows Portfolio With $23M Purchase

The investment company financed the acquisition of the 198-unit Artisan Park in Glendale with a $15.1 million Fannie Mae loan.

Goodman Expands With 216-Unit Acquisition

The 24-building community located within an Opportunity Zone came online in 1984. Institutional Property Advisors represented the joint venture seller and procured the buyer.

Starlight Adds $80M Arizona Community To Portfolio

The investment firm's U.S. multifamily vehicle acquired the 282-unit luxury property in the city of Scottsdale from Sunridge Apartments.

Phoenix-Area Developments Secure $54M Financing

PCCP LLC provided the two senior loans that will be used to construct IDM Estrella Parkway in Goodyear and IDM Cooley Station in Gilbert, Ariz.

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MULTI-HOUSING NEWS

What Attracts Investors to Phoenix

By Timea Matyas

With a diversified economy and skilled workforce at hand, Phoenix has been experiencing a boost in housing demand. According to Yardi Matrix, Los Angeles-based Tides Equities owns more than 2,700 units in the Phoenix metro and is currently working on expanding its portfolio in the area.

Sean Kia, co-founder & principal of the company, shared his insights on current trends in the market and the value-add investment opportunities his firm is looking into while trying to exceed last year's acquisition volume of $300 million.

How would you characterize Phoenix's multifamily market today? What are the main trends?

Affordability is the main trend we see as to why people are moving to Phoenix. You can live in a nicely renovated two-bed, two-bathroom apartment for $1,200 in a great part of town that is within walking distance to retail and nightlife, whereas if you live in another major metro—such as Los Angeles, New York, Boston or San Francisco—you are paying three to four times that price for a comparable product.

What makes Phoenix an attractive market for multifamily investment? Which submarket do you see as the most promising for investment opportunities?

Phoenix is an attractive market for multifamily investment because of the job, wage and population growth stories. Maricopa County was the fastest-growing county in the country last year, adding just over 81,000 new residents year-over-year. People are flocking to Phoenix

because of the affordability story and due to the fact that it's a fun place to live and play.

Our current favorite submarket in Phoenix is Tempe, as it not only has the largest university in the country as an anchor but it also has a couple million square feet of office and biomedical (projects) under construction, which will further bolster the surrounding area and continue to bring high-paying jobs/residents.

With a forecasted steady rise in the market, what is the company's strategy going forward? What are your next projects and goals?

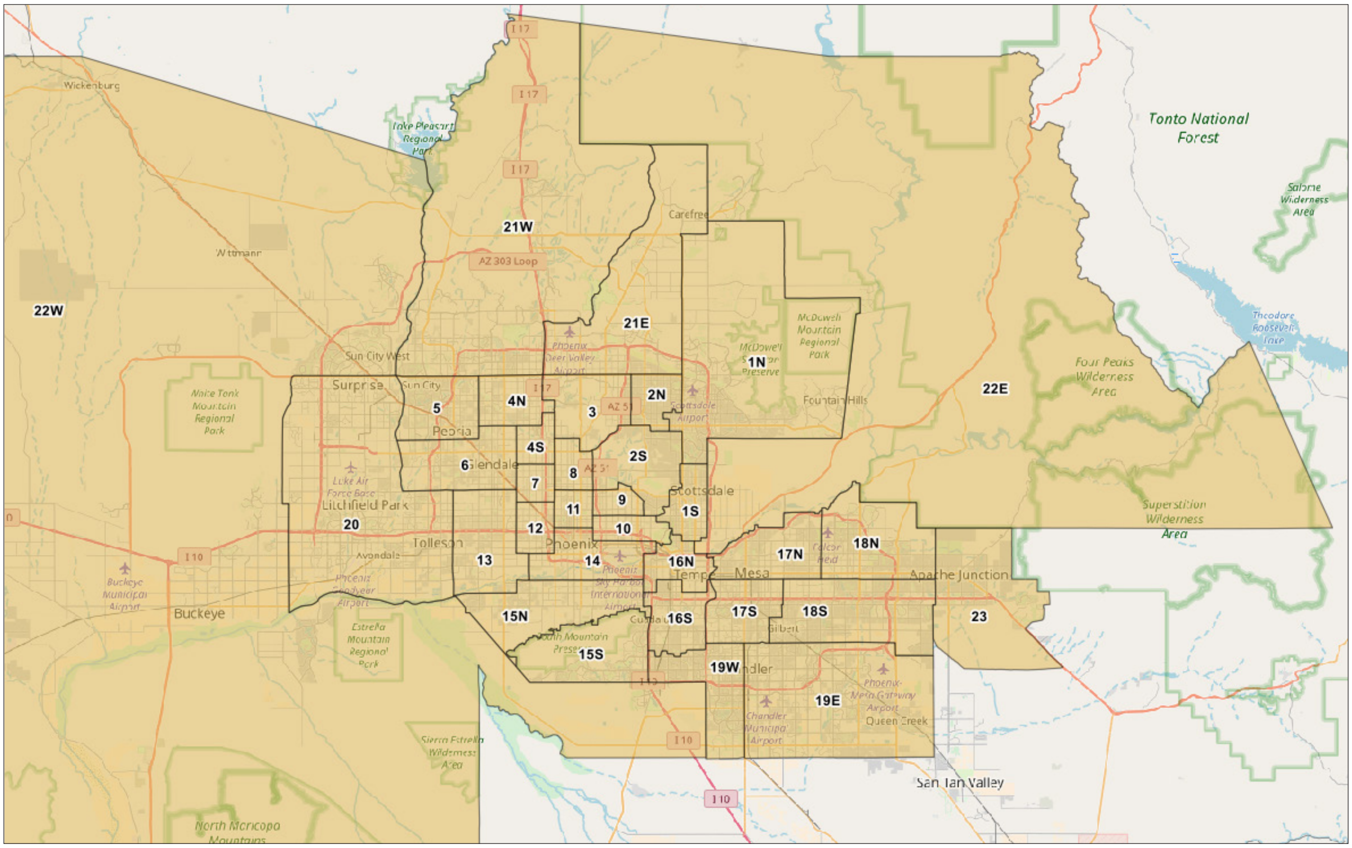
We are continuing to stay disciplined in our acquisitions as we have seen steady cap rate compression and increased competition for value-add product in the Phoenix area. We are still planning to target buildings with operational and management upside, as well as branding and renovation upside. We have two buildings in escrow now (in June); one has 442 units and the other 224. Both are '80s-vintage buildings in the Phoenix area.

Are you planning to invest in other markets, as well?

We love Phoenix and will continue to focus primarily in that market, but we certainly are targeting other markets, with Salt Lake City and Denver right at the top of our lists. We love the affordability stories in both markets and see an influx of in-migration, job and wage growth over the next five years in each market.

Denver does have a bit more new supply, which is concerning, but we like the long-term growth prospects of the markets.

Phoenix Submarkets



Area #	Submarket
1N	North Scottsdale
1S	South Scottsdale
2N	North Paradise Valley
2S	South Paradise Valley
3	Sunnyslope
4N	North Black Canyon
4S	Metrocenter
5	Sun City–Youngtown–Peoria
6	Glendale
7	Northwest Phoenix
8	Christown
9	East Camelback
10	Central East Phoenix
11	Uptown
12	Central West Phoenix
13	Maryvale
14	Sky Harbor

Area #	Submarket
15N	South Phoenix
15S	Mountain Park
16N	North Tempe
16S	South Tempe
17N	North Mesa
17S	South Mesa
18N	East Mesa
18S	Superstition Springs
19E	Gilbert
19W	Chandler
20	Western Suburbs
21E	Union Hills
21W	Deer Valley
22E	Northeast Maricopa County
22W	Southwest Maricopa County
23	Apache Junction

Definitions

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- *A young-professional, double-income-no-kids household* with substantial income but without wealth needed to acquire a home or condominium;
- *Students*, who also may span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income ("gray-collar") households*, composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households*, which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.